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ABSTRACT

This report highlights the findings of case study visits to 15 postsecondary institutions participating, or planning to participate in the William D. Ford Federal Direct Student Loan Program. Schools were asked to describe the implementation and administration processes of the program, to describe the school's workload under the Direct Loan Program compared to the Federal Family Education Loan Program, and to assess the school's satisfaction with the timeliness and quality of the services provided by the Department of Education. Nine of the ten schools administering the Direct Loan Program reported a high level of satisfaction with the program, despite difficulties encountered during implementation. School administrators indicated that all anticipated benefits of the program were realized. Benefits to the school included improved cash flow and increased student satisfaction. Benefits to financial aid offices included decreased problems and loan processing delays and increased time available for counseling due to control over the loan process. Benefits to students included rapid delivery of funds and elimination of lines to cash checks. Recommendations for schools entering the Direct Loan Program are provided in the areas of planning and training, operations and resources, and direct loan administration. Recommendations for the Department of Education are also presented. (JPB)

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ED 394 487

Evaluation of the Federal Direct Loan Program

Case Study Summary Report

Year Two

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Evaluation of the Federal Direct Loan Program

Case Study Summary Report

Year Two

Submitted to:

U.S. Department of Education
Postsecondary Education Division
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Contract No. EA93085001

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1996

The views expressed in this report, developed under contract to the U.S. Department of Education, do not necessarily reflect the position or policy of the Department, and no official endorsement by the Department should be inferred.

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Elaine Glover, consultant to Macro, is the Case Study Manager. Maureen Murphy is the Project Director. The site visits were conducted by Elaine Glover, Michelle Hearn, Joel Goldman, Maureen Murphy, Frank Nassetta, Laura Greene Knapp, Sadie Bennett, Katy Hoffman, Robert Blankenship, and Sara Sullivan. The report was prepared by Elaine Glover. All members of the site visit teams wrote individual case study reports, contributed to the discussion informing this report, and provided input to the report. The assistance of Cathy Olshefski in the formatting, editing, and production of the report is gratefully acknowledged.

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Summary **45**

This report highlights the findings of case study visits to 15 postsecondary institutions participating (or planning to participate) in the William D. Ford Federal Direct Student Loan Program. Nine of the ten schools administering the Direct Loan Program reported a high level of satisfaction with the program, despite difficulties encountered during implementation. (Five schools were planning to enter the Program in 1995-1996.) School administrators said that all anticipated benefits of the Direct Loan Program were realized, including:

- Benefits to the School: Improved cash flow and increased student satisfaction.
- Benefits to the Financial Aid Office: Decreased problems and loan processing delays and increased time available for counseling due to control over the loan process.
- Benefits to the Students: Rapid delivery of funds and elimination of lines to cash checks.

Considerations for Schools

Based on case study findings, the Macro project staff compiled a list of suggestions for schools entering the Direct Loan Program to consider in planning for and implementing the program.

Planning and Training

- Contact schools that have implemented the program and adapt their practices to your needs.
- Involve other campus offices in planning to obtain a higher level of school commitment.
- Assign Direct Loan responsibilities on the basis of past Title IV experience.
- Carefully select the appropriate level of U.S. Department of Education (ED) training to attend, and if resources permit, have more than one person attend ED training.

Operations and Resources

- Arrange for access to internal and contracted personnel with computer expertise.
- Assess the skill level of current staff related to changes in task content.
- Assess current computer systems in light of ED requirements for memory, processors, and compatible networks.
- Plan to assume any borrower counseling that was previously handled by lenders/guarantors.

Direct Loan Administration

- Use ED's preprinted promissory note forms and electronically print all required data.
- Develop a computerized parent-student name matching file.
- Develop a system for tracking transmitted batches and their contents.
- Keep current with monthly reconciliation and contact ED when problems occur.

Considerations for ED

While school administrators reported a high level of satisfaction with the Direct Loan Program, they also suggested ways in which ED could improve the program. Many of these issues have been conveyed to the Department through users' groups, and bulletin boards. These have either already been addressed or are being addressed.

Suggestions Addressed by ED

Training

- Allow software vendors to attend ED training sessions at schools' invitation and to use ED systems to test their Direct Loan processing modules.
- Provide schools with enhanced and earlier reconciliation training.

Computer System Testing and EDExpress (Direct Loan Software)

- Develop additional opportunities for testing procedures with the servicer.
- Update EDExpress to be compatible with mainframe networks and PC technologies.
- Design a save-screen override permitting users to move from one screen to the next for data entry.
- Design EDExpress edits which prevent transmission of records missing required data elements.

Loan Origination

- Redesign acknowledgment reports to include the identification number of all loans.
- When changing codes, old codes should be retained until all schools have adequate notice and time to reprogram their records.
- If a partial transmission is made, the servicer should send the school a list of records received.
- The servicer should send the school a list of loans canceled in the prior week or month.

Student Status Confirmation Reports (SSCRs)

- To help prevent loan default, the servicer must send SSCRs regularly.

Policy Guidance

- Define how consolidation of FFEL with Direct Loans will affect the FFELP default rate.
- Redefine rules for proration of loans to graduating seniors.
- Reconsider rules for multiple disbursement for single semester loans, delayed disbursement for first-time borrowers, and unequal loan disbursement to take advantage of Direct Loan processing efficiencies.

Suggestions for ED to Consider

The following suggestions made by school administrators and/or Macro staff, have not, to the best of our knowledge, been addressed by ED in their current plans.

EDExpress

- Consider converting the current software from a loan-based system to a borrower-based system.
- EDExpress should include an option to cancel any loan or disbursement that has a zero value.
- Schools should be warned of the need to check the rounding rules used in EDExpress.

PLUS Loan Denials

- Investigate the feasibility of the servicer sending the school a copy of the PLUS denial cover letter.

Loan Origination and Reconciliation

- Develop a "troubleshooting handbook" listing common errors and problems with possible solutions or corrective actions to take.
- Notice of servicer system problems should be sent to all schools as soon as discovered.
- Shipping manifests should distinguish between first and second disbursements.
- Servicer should have the capacity to call up the image that appears on schools' PC screens.
- A method for retrieval of erroneous transmissions should be made available to the schools.
- Allow schools access to the EDExpress programming code for individual software modification.
- Add parent reference fields on PLUS origination records so they can be printed on promissory notes.
- Consider implementing sanctions on schools not current with monthly reconciliation.

Policy Guidance

- Define rules for refund of PLUS or Stafford Loans to parents or students.
- Clarify Direct Loan regulations regarding the schools' ability to strongly discourage or limit excess student borrowing.
- Reconsider rules regulating the timing of the entrance interview.

In summary, the case study schools were satisfied with their experiences with the Direct Loan Program, citing important benefits to the school and the student. Schools did offer numerous suggestions for program improvement, many of which ED is addressing.

Introduction

Case Study Objectives

This *Case Study Summary Report* is part of the evaluation of the Federal Direct Student Loan Program commissioned by the U.S. Department of Education (ED). Institutional case studies have been included as one element of the evaluation plan. Case studies provide the opportunity to describe in detail the diversity of approaches used by the schools in planning for and implementing the Direct Loan Program. The results of the case studies are being used to inform the development and refinement of questions and response categories in the full-scale surveys of institutions and borrowers. In addition, the case studies allow for the early identification of the best practices and of recurring problems in implementing the new program. This may assist other institutions by suggesting ways they can benefit from the experiences of those who have come before them. Annual data collection will also provide opportunities for early feedback to be used in program improvement.

The objectives of these case studies are to:[1]

(1) Describe the schools' implementation and administration processes for the Direct Loan Program, including:

- determine whether the Direct Loan Program is simpler or more complex to administer at the institutional level than the Federal Family Education Loan Program (FFELP);
- identify the most difficult and common problems experienced by institutions in administering the Direct Loan Program; and
- identify and highlight the best practices at institutions.

(2) Describe the schools' workload under the Direct Loan Program as compared to the FFEL Program; and

(3) Assess the schools' satisfaction with the timeliness and quality of the services and support provided by ED.

[1] It is important to note that institutional compliance issues were not an objective of this study.

Case Study Methodology

During study year one, 5 sites in the first cohort of 104 institutions participating in Direct Lending were visited in Spring/Summer 1994. The study teams collected data describing the pre-implementation planning processes at these schools. The findings of the first year were reported in the *Case Study Summary Report: Year 1* presented to ED in November 1994.

In the second year of the study, a total of 15 schools were visited. The initial 5 schools (schools numbered 1 through 5) were revisited to study the first year of program participation. An additional 5 schools from the first cohort of schools were visited to collect pre- and post-implementation data (schools numbered 6 through 10). Five schools from the second Direct Loan institutional cohort (schools numbered 11 through 15) were visited to collect pre-implementation data. In each subsequent year of the study, new sites from each cohort will be visited and some of the same sites will be revisited to obtain a longitudinal view on program implementation and changes in perceptions. The sites were chosen to represent the variety in institutional type and control, region of the country, and loan volume.

In order to protect the confidentiality of all respondents, the schools were assigned identification numbers. Each school retains the same identification number in all follow-up site visits.

A two-person team from Macro International visited each of the 15 schools between November 1994 and April 1995. Interviews at each school were conducted with key administrators and students. Schools were also called back for clarification of specific points during the writing of the individual case study reports. This information is incorporated in this report. This report is a summary of the findings from the 15 site visits completed in the second year of this study. Table 1 summarizes the case study data collection in the first two years.

Table 1
Summary of Site Visit Data Collection in Study Years 1 and 2

Study Year	Direct Loan Program Cohort	Number of Sites Visited	Type of Data Collected on Direct Loan Program
Study year one	Cohort-1	5	Pre-implementation
Study year two	Cohort-1 (Year One Sites)	5	Post-implementation, first follow-up
	Cohort-1 (New Year Two Sites)	5	Pre- and Post-implementation
	Cohort-2	5	Pre-implementation

Characteristics of Sample

Type, Control, Region, Size, Level of Origination, and Level of Implementation

A sample of schools was drawn from lists of schools participating in the first and second Direct Loan cohorts. The Macro team selected schools which varied by type and control, region of the country, and estimated size. The proprietary schools included in the sample were divided between technical and cosmetology schools because these two types of schools serve different student populations.[2]

Three public 4-year, three public 2-year, three private 4-year, and six proprietary schools (three cosmetology and three technical schools), representing all regions of the country, are in the second-year sample. Variation in the size of the schools, as measured by approximate loan volume, was considered an important selection criteria needed to differentiate between approaches to Direct Loan implementation. Larger schools could take advantage of economies of scale in planning and implementing the program. Planning processes, financial aid administration, and resources for these larger, more complex schools were thought to vary dramatically from the very small schools (with less than 100 borrowers) or mid-sized schools (with a few hundred borrowers).

The Macro team also wanted to include schools using the alternate originator in its sample. Five of the first Direct Loan cohort schools are using an alternate originator; all others are performing all Direct Loan operations. The schools were about equally divided between those which are phasing in the Direct Loan Program and those fully implementing the program in their first year of participation. With the exception of School 7, the schools partially implementing Direct Loans are phasing in the program with new student borrowers, and expect to be at or close to full implementation by their second year. School 7 administrators hope to retain both Direct Loan and FFEL Programs. Table 2 summarizes the characteristics of the sampled schools.

[2] Primary and alternate selections were made for each sample cell. Not all schools initially contacted chose to participate. When a school declined, the alternate choice was contacted to participate in the study. To limit demands on school administrators, additional effort was made to contact schools which were not participating in any other Federal Direct Student Loan Program study or evaluation.

Table 2
Summary of Second-Year Sample Characteristics

School	Type/Control	Location	Loan Volume[1] 1993-94 (# of Borrowers)	Origination Level[2]	Extent of Direct Loan Implementation
1	4 -year Public	West	$25.4 million (6,000)	1	phase-in
2	4 -year Private	East	$36.8 million (8,600)	1	full
3	Proprietary-Cosmetology	Midwest	$420,000 (100)	2	phase-in
4	2 -year Public	West	$905,000 (400)	2	phase-in
5	Proprietary-Technical	West	$2.2 million (550)	1	phase-in
6	4 -year Public	West	$25.8 million (6,600)	1	full
7	4 -year Private	South	$11.2 million (2,200)	1	phase-in
8	Proprietary-Trade	South	$4.14 million (800)	2	full
9	2 -year Public	Midwest	$790,000 (400)	2	phase-in
10	Proprietary-Cosmetology	East	$160,000 (56)	2	full
11	4 -year Public	South	$20.5 million (8,000)	1	full
12	4 -year Private	East	$28 million (5,500)	1	full
13	Proprietary-Cosmetology	South	$115,000 (65)	1	full
14	Proprietary-Technical	Midwest	$1.7 million (500)	1	phase-in
15	2-year Public	West	$2.2 million (1,000)	1	full

[1] The reported 1993-94 loan volume for some schools includes SLS borrowers; other schools excluded these numbers from reported data.

[2] In 1994-95, there were two levels of origination. Level-1 schools performed all loan origination, drawdown and disbursement functions. Level-2 schools used the services of an alternate originator to originate loans and draw down funds.

Recent Changes in Enrollment and Tuition

Enrollment at a majority of the schools visited has remained fairly stable in recent years. The few schools which experienced an increase in enrollment did not attribute this to any changes in the federal student loan programs.

Two schools were attempting to fill the gaps left by local proprietary school closings. School 13 was planning to expand its program offerings in late Spring 1995, in part, triggered by the closing of local proprietary schools with high default rates and loan access problems. As a Direct Loan institution, School 13 was planning to fill the gap left by the closed schools. School 3 has a history of accepting transfer students from closed schools. Recently, nearby inner-city cosmetology schools closed and a number of students transferred to this school. However, enrollment has not increased dramatically because many of these students have been dropped by the school for poor attendance.

Between 1993-94 and 1994-95, tuition at almost all of the case study schools has risen at a rate higher than the national average inflation rate of approximately 3 percent. Table 3 summarizes the changes in program costs and tuition rates at the fifteen schools.

Table 3
Program Costs or Academic Tuition Rates[1] for 1993-94 and 1994-95, and Percentage Increase at Case Study Schools

School	Tuition Rates 1993-94	Tuition Rates 1994-95	Percentage Increase 1993-94 to 1994-95
1. Resident Nonresident	$2,000 $5,978	$2,250 $6,300	12.5 5.4
2. Undergraduate	$18,170	$19,000	4.6
3. Average both campuses	$5,730	$6,000	4.7
4. Resident Nonresident	$19/credit $35/credit	$19/credit $35/credit	0.0
5. Average Program AA Degree Certificate	 $15,000 $ 6,360	 $15,852 $ 6,689	 5.7 5.2
6. Undergraduate	$925/quarter	$1,000/quarter	7.0
7. Undergraduate	$3,285	$3,450	5.0
8. On-campus Travel Culinary	 $8,494 $12,558	 $8,991 $13,345	 5.8 6.3
9. All students	$24/credit	$27/credit	12.5
10 All students	$4,789	$4,789	0.0
11 Resident Nonresident	$3,888 $10,056	$4,044 $10,800	4.0 7.0
12. Undergraduate	$17,900	$18,000	5.0
13. All students	$5,500	$5,500	0.0
14. Non-lab Computer lab	$105/credit $150/credit	$120/credit $170/credit	14.0 13.3
15. Resident Nonresident	$57.50/credit $225/credit	$59.50/credit $232.50/credit	3.5 3.5

[1]Some tuition rates have been rounded.

Institutional Financial Aid

Some administrators have speculated that by making it easier to obtain a loan, the Direct Loan Program may cause an increase in the level of borrowing. Case study data do not indicate that this is occurring. Visited schools in the first cohort of the Direct Loan Program experienced from 0 percent to 40 percent change in loan volume; while visited cohort two schools still reporting on FFELP volume experienced a 0 percent to 33 percent change. Table 4 reports FFELP and Direct Stafford Loan volume of the case study schools for 1993-94, estimated 1994-95 volume, and the estimated percentage change for Cohort-1 and Cohort-2 schools.

The Macro team also investigated whether the schools' financial aid award policies or administrative Direct Loan practices would have an impact on loan volume. This was not found to be consistently true. For example, under Direct Loans, School 2 includes the maximum loan amounts available and the necessary promissory notes with the students' financial aid award letter. The students simply sign and return the note(s) with their acceptance to receive their loan(s). While School 2 did experience an increase of more than 20 percent in loan volume, so did three of the schools which have specific policies and/or administrative practices aimed at limiting student borrowing[2]. These include requiring a separate loan application to the school (School 11 for Unsubsidized Loans), a special request to the FAO in order to apply for a loan (School 4), or a cover letter accompanying the financial aid award announcement which discourages use of Unsubsidized Stafford Loans (School 6). These policies have not consistently served their purpose: Schools 4, 6 and 11 experienced substantial increases in loan volume. However, other schools with specific policies or practices aimed at limiting student borrowing (Schools 5, 13, and 15) had no increase in loan volume. Clearly factors in addition to school policies and practices are affecting student borrowing.

[2] Most students who borrow at School 2 will borrow the maximum amounts for which they are eligible because of the high cost of this private school.

Table 4
Loan Volume and Percentage Change 1993-94 to 1994-95

School	Loan Volume 1993-94	Loan Volume 1994-95 (to date)			Percentage Change
		FFELP	Direct Loans	TOTAL	
1	$25.4 million	$18.0 million	$ 7.0 million	$25.0 million	0[1]
2	$36.8 million	NA	$44.7 million	$44.7 million	21
3	$420,000	$30,625	$ 666,603	$697,228	40
4	$905,000	NA	$ 1.4 million	$ 1.4 million	33
5	$ 2.2 million	$ 1 million	$ 850,000	$ 1.9 million	0[4]
6	$25.8 million [2]	NA	$31.7 million[3]	$31.7 million	23
7	$11.2 million	$11.4 million		$11.4 million	2
8	$ 4.1 million	NA	$ 1.6 million	$ 4.0 million	0[4]
9	$790,000	NA	$ 968,000	$968,000	23
10	$160,000	$23,625	$ 55,125	$78,750	0[4]
11	$20.5 million	$27.2 million	NA	$27.2 million	33
12[5]	$ 4 million	$ 5 million	NA	$ 5.0 million	25
13	$115,000	$115,000	NA	NA	0[4]
14	$ 1.7 million	NA	NA	NA	0[4]
15	$ 2.2 million	$ 1.92 million	NA	$1.9 million	0[4]

[1] Unsubsidized Loan volume increased 35 percent; Subsidized and PLUS Loan volume decreased.
[2] Excludes Supplemental Loans for Students (SLS).
[3] Includes Unsubsidized Stafford loans.
[4] 1994-95 loan volume projected to equal 1993-94 volume.
[5] Undergraduate only.

Overall Direct Loan Program Satisfaction

Nine of the 10 schools visited which implemented Direct Lending in 1994-95 expressed high levels of overall satisfaction with the program, despite the various problems encountered during the first year of operation. School 5 corporate administrators were dissatisfied with Direct Lending for reasons discussed below. In the first year of this study, the visited schools reported their reasons for participating in Direct Lending in terms of their anticipation of benefits to students and the school. Cohort-2 schools report much the same expectations. In the second study year's visits to Cohort-1 schools, the administrators at nine of the schools said that all the anticipated benefits had been realized. For all 10 of the FAOs, Direct Lending was judged easier to administer than FFELP, primarily because of the institutional control over the process. Additional benefits were reported accruing to (a) the school, (b) the FAO, (c) the students, and (d) the business and other school offices. Table 5 summarizes the reported benefits to each entity and identifies the general areas in which difficulties have been experienced.

Table 5
Benefits Realized from Direct Loan Program Participation

BENEFITS TO THE SCHOOL
Improves public image with other schools and in the community
Improves inter-office communications
Improves loan access
Improves student satisfaction—lines to sign loan checks eliminated
BENEFITS TO THE FINANCIAL AID OFFICE
Brings FAO workload and operation complexity to eyes of other school administrators when Direct Loan Planning Committees involve several campus offices
Improves efficiency of operations which leads to improved image on campus
Decreases paperwork (applications, checks, multiple GA/lender communications) resulting in more counseling time
Decreases student questions, concerns and frustrations—loan status questions are answered immediately, without having to contact lenders or guarantee agencies, and solutions to problems are within the school's control
Simplifies loan counseling—fewer entities and processes to explain
Provides impetus for upgrading computer systems or becoming computerized
Improves ease and general control over full loan process (especially changing loan amounts and cancellations)
Decreases need to make emergency loans, using institutional funds, to needy students waiting for delayed loan checks
Eliminates the need to use "anticipated credit" while waiting for paper checks and reduces delays in funds receipt

Table 5 (cont.)

BENEFITS TO STUDENTS
Simplifies whole loan process
Students experience less confusion
Decreases frustration because of immediate and accurate loan status information
Allows for more counseling time from FAO counselors
Provides faster access to loan funds
Simplifies application process—no credit check and/or no trip to bank
Simplifies repayment because loans will not be sold
Simplifies consolidation
Increases repayment options
BENEFITS TO BUSINESS AND OTHER SCHOOL OFFICES
Creates the impetus to establish computerized student accounts, easing business office efforts
Decreases paperwork from paper checks and eliminates lines of students waiting to sign checks, which frees staff for other tasks
Saves time spent tracking down students to have them come in and sign checks
Improves fiscal management due to improved cash flow and fewer bounced student checks

Planning for Implementation

The following are compilations of the results of the Cohort-1 schools' experiences related to planning Direct Loan implementation. Many of the responses from these schools included statements such as "We forgot to plan for ...." or "When planning, Cohort-2 schools should ..." . The discussion in this section is reported in terms of the lessons learned by these Cohort-1 schools. For the most part, Cohort-1 and Cohort-2 schools had similar experiences with this phase of Direct Loan implementation; any differences between the two cohorts are noted. First, the two primary techniques used for planning are described. This is followed by a discussion of participation in ED training. Important early decisions are discussed, with special emphasis on computer system decisions. Finally, some essential planning details are presented.

Planning Techniques

Schools in study year one identified two principal staffing approaches for planning Direct Loan implementation—committee of relevant school-wide offices and FAO individual. (One school combined these techniques.) Generally, the larger, more complex schools tended to form a committee or task force to examine the school's needs and to develop implementation plans for new operations. The Cohort-1 schools reported three principal benefits derived from planning committees:

- enhanced potential for accessing resources;
- improved campus-wide commitment;
- improved relations and communication with other offices.

New schools visited in the second study year reported similar advantages derived from involving administrative offices other than the FAO in the planning.

Smaller schools, or large 2-year public schools with relatively small loan volume, may not have other resources or have more difficulty accessing school resources. They are more likely to have the vast majority of program implementation planning performed by the FAO Director with some input from the school's business office.

Cohort-2 schools have had two major planning advantages over Cohort-1 schools. They report using ED training materials for identifying activities, planning tasks, and dividing functions. In comparison, the Cohort-1 schools had to develop their own lists of activities, and revise and refine them as the planning process developed. The major advantage that Cohort-2 schools have had is the ability to contact participating Cohort-1 schools for advice and demonstrations of program operations. This was especially valuable for making computer systems decisions.

Who Needs Training?

ED offers Direct Loan training sessions which focus on overall program operations and sessions of technical, hands-on training for EDExpress. When Cohort-1 schools were trained, all schools (regardless of size or computer environment) attended training with the same format. Based on requests from the schools, Macro's study year one report suggested ED develop separate training sessions for EDExpress beginners and also for mainframe users. Since then, "novice" training and technical sessions for mainframe or mainframe- PC users have been added to the ED technical schedule. School administrators need to be aware that there are a variety of types of training and need to designate attendees accordingly.

In addition to selecting the appropriate level of training sessions, Cohort-1 schools had other suggestions. The schools said that in order to get the most out of the training offered and

resources expended, administrators should carefully select which staff attend each type of training. The following is a summary of their experience and suggestions:

- *Administrators* should attend kickoff[3] and overview type meetings. These sessions help in planning division of tasks and allocation of school resources. If resources limit the number of staff able to participate in training, administrators should not attend hands-on, technical training.

- *Front-line staff* (i.e., those who will actually be performing loan origination and operating EDExpress) should attend technical, hands-on training meetings. One Direct Loan school, using a third-party servicer, suggested that these commercial servicers be allowed to attend training if the school requests it.

- *Business office/fiscal staff* generally report that training provided them with an overview of the program, but very little information specific to their responsibilities, such as estimating drawdown, clear rules on disbursement dates, and reconciliation processes. All expressed a desire for special fiscal training sessions.

- *Systems analysts and computer programmers* report that existing training does not address the types of information needed by this level of personnel and suggested the need for developing specific systems training, with separate training sections for mainframe users and PC users.

More than one school experienced staff turnover during the period between training and program implementation. In School 3, this left the FAO without a trained staff member and created transitional difficulties. To whatever extent possible, schools should have more than one individual attend the training. To encourage this, ED needs to minimize travel costs by locating training near as many schools as possible.

Proprietary school administrators noted that ED training does not address their special needs related to multiple start dates and varying program lengths. They also would have liked more opportunity to discuss Direct Loan operations with other participating proprietary schools. Some proprietary school administrators said that their training sessions were dominated by large schools and that their concerns were not heard. They suggested ED should have separate training sessions for proprietary schools.

Expanding training to include more specialized sessions and a wider range of geographic locations entails expenditure of additional ED resources. One possible solution is for ED to increase the use of schools experienced with the program to train new schools entering the Direct Loan Program. Although some Cohort-1 schools are currently assisting Cohort-2

[3] Some school administrators said the kickoff meeting was a "pep talk" and presented very little useful information. Others said they appreciated the positive attitude, enthusiasm and commitment expressed by ED at these meetings.

schools on an informal basis, time and resources limit the number of schools which can be assisted. With the expanded number of schools from the second Direct Loan cohort, there will be a sufficiently large number of operational schools to institutionalize this informal exchange. Support from ED, in the form of monetary recompense, would encourage expansion of this successful practice.

First Things First: Important Early Decisions

Based on the school's comments, three areas of planning for program implementation were considered critical first decisions—computer systems, level of program implementation, and assessing staff skills. The decisions made in these areas will dictate all other planning activities and resources needed.

Computer Systems Decisions

In the first year of this study, Macro found that the schools with access to a computer literate staff member had an advantage over schools without this resource. The second-year results strongly confirm the conclusion that it is essential that the school have some access to computer literate personnel. While the larger schools (Schools 1, 2, 4, 6, 7, 12, 14, and 15) accessed services and a significant time commitment from computer support departments, smaller schools made other arrangements. For example, Schools 3 and 8 had on staff a computer literate individual who assisted with loading and testing software. Schools 10 and 13 developed consulting arrangements with local computer specialists. With the exception of School 4, schools with a computer support department (Schools 1, 2, 6, 7, 12, 14, and 15) were more likely than the smaller schools to have developed mainframe-to-mainframe or mainframe-to-PC computer systems for Direct Loan processing. School 4 had some assistance from its small computer support staff, but the school has a relatively small loan volume and did not devote a high level of resources for implementing Direct Loans.

Both systems personnel and financial aid personnel have said that it is not essential, but very helpful to have at least one individual who is both computer literate and understands financial aid operations; this allows for better communication between the two areas of expertise. A computer literate FAO staff member can more easily explain to systems personnel what the FAO needs.

Computer literate personnel have helped the schools in the critical process of assessing their current computer system, in light of ED requirements for memory, processors, and networks, and assessing the need for and costs of system upgrades. Existing systems also need to be evaluated in terms of their efficiency, recency of investment, and compatibility with ED software.

For example, School 10 was using inefficient, outdated equipment which could not be used for Direct Loans. This school had to purchase a 486 PC with modem for Direct Loan operations. School 4 has used Macintosh computers for many financial aid operations. EDExpress, however, does not run efficiently on this type of computer, so Direct Loan operations were switched to the FAO's PC. The school also had to upgrade the memory of its PC to process Direct Loans because the 386 PC was not sufficiently powerful. In comparison, Schools 1, 2 and 6 had a vested interest in using and maintaining the current mainframe systems, and decided to format Direct Loan software in the existing system.

Schools 8 and 14 encountered a different type of problem. Their computer systems are state-of-the-art and were incompatible with EDExpress. School 14 was in the process of finalizing the installation of a networked PC system on a Novell platform purchased one year earlier. It was discovered, however, that EDExpress may not be compatible with the newest version of Novell. At the time of the site visit, the school was still in communication with the Central Processing System (CPS) contractor's support personnel to resolve this problem. School 8 began using EDExpress in a Windows environment before the servicer informed them that the Windows environment corrupted their data. They ceased using Windows but have not resolved the data corruption problems from the early transmissions to the servicer. ED faces the challenge of keeping EDExpress compatible with current and new mainframe and PC technologies, such as Windows for PC and advanced versions of Novell and other networks. (We understand that the 1995-96 version of EDExpress will be compatible in a Windows operating environment.)

Systems personnel report two other factors to consider in the computer system assessment: expected loan volume and data integrity.

Loan Volume

EDExpress on a 486 PC functions well for schools with small (less than 200 loans annually) loan volume (Schools 3, 8, 10). As School 4 discovered, a 386 PC will need to be upgraded.

The system decision appears most difficult for medium-sized schools (200 to 1,000 loans). Although their volume is somewhat too large for efficient operation on a PC using EDExpress, it is not large enough to gain from the economies of scale in using a mainframe system or to warrant expenditure of resources on developing a mainframe system. This is the problem encountered by School 5.

School 5 is a corporate-owned proprietary school. The corporate headquarters performs all financial aid processing except packaging and counseling, which are functions performed by the individual schools' FAOs. The FFELP was operated using electronic funds transfer (EFT) on the corporate mainframe. School 5 administrators initially planned to have the individual schools originate loans, and perform drawdown and disbursements at corporate offices. The ED system, however, could not accept origination records from one computer and drawdown

requests from another system. The corporate administrators then decided to implement the Direct Loan Program using EDExpress on a PC at the corporate headquarters. This has been an unsatisfactory choice. The multiple start dates, varying program lengths, and moderate-size loan volume made Direct Loan processing on this system very difficult. (Macro understands that the 1995-96 version of EDExpress contains enhancements which address the issue of program completion dates.) In addition, EDExpress does not create the reports deemed essential for the corporation's accounting processes. Administrators have, therefore, developed a dual system using the mainframe for disbursement and accounting procedures and the PC for originating loans and drawdown of funds. The administrators are currently investigating the possibility of installing a commercial software system for managing Direct Loans on the mainframe computer.

Based on experiences at larger schools (loan volume over 1,000 loans), the following types of processing systems have been found: (1) ED's mainframe interfaced with school's mainframe, (2) school's mainframe interfaced with the school's PC, or (3) a dual system using the school's mainframe and a free-standing PC. A discussion of the schools' experience with dual systems follows.

Data Integrity on Dual Systems

Data integrity refers to the aggrement of mainframe and PC databases. Dual systems of non-interfaced mainframe and PC (Schools 4, 5, and 7) require double data entry, which increases the level of effort and requires daily system uploads and downloads (this may lead to asynchronous systems). While data integrity may be a problem in a dual system, the advantage of this non-integrated system is that system development requires minimal school resources. Mainframe-to-mainframe systems (School 6) and mainframe-to-PC through a system interface (Schools 1 and 2) reduce data integrity risks, but require substantially more resources to develop[4]. Schools 1 and 2 have also experienced a number of difficulties with certain aspects of their systems interface.

Two schools (Schools 7 and 13) are using networked PC systems for their financial aid operations. While School 7 has a mainframe computer for most FAO operations and student accounts, for Direct Loans they developed a networked PC system for operating EDExpress. The school's computer staff felt that (a) their understanding of financial aid, (b) the FAO staff's lack of computer literacy, and (c) the complexity of system development precluded developing an EDExpress interface between the mainframe and PCs. The eight networked PCs in the FAO function as a single unit and are integrated with the School 7 mainframe. School 13 also has an integrated PC system, which at the time of the site visit included the main campus, but did not include the two other campuses. Financial aid information is available on the integrated

[4] Both mainframe-to-mainframe and mainframe-to-PC interfaces required approximately one FTE systems programmer for one year of effort to develop and refine. Individually designed systems will also require additional, but as yet unknown, amounts of programming for system maintenance.

network to both the FAO Director and the Fiscal Officer, while branch campus data are currently up- and downloaded on diskette.

Cohort-2 schools have an advantage over Cohort-1 schools in making these system decisions. Cohort-1 schools desiring a mainframe-to-mainframe system (School 6) or an integrated mainframe-to-PC system (Schools 1 and 2) had to use their own resources to develop the system programming. In comparison, Cohort-2 schools may access commercial vendors' systems (School 12) or share the effort of a Cohort-1 school (School 15).

Level of Participation: Pros and Cons of Full vs. Partial Implementation

A major part of the implementation decision is to determine the level of participation—partial or full. Schools which decided to partially implement Direct Lending did so for the following reasons:

- maintain lender relations for school (School 12);
- maintain lender relations for the students and give the students a choice of programs (School 3 and 7);
- desire to learn the program by initially processing a small number of loans (School 5);
- comply with state authority (School 1)[5] ; and
- have current borrowers complete borrowing under FFELP.

These schools are phasing the program in with new borrowers and report no problems with this decision. All but two anticipate having Direct Lending fully implemented in their second year of participation.

Nine of the case study schools decided to fully implement Direct Loans in their first year of operation. The primary reasons reported by FAO administrators were the lack of resources to simultaneously run two loan programs and the desire to avoid student confusion. One administrator (School 11) said that phasing in Direct Loans defeats the purpose of simplification derived from switching to the new program. Only one school's administrator (School 8) regrets fully implementing Direct Loans, because this school has experienced a number of computer and staff turnover problems.

[5] Pressure by the State Guarantee Agency on the State Board of Regents led to School 1 being required to phase in Direct Lending in the first year and participate 100 percent in year two. The FAO administrator said that running two loan programs was a burden, requiring additional staff, and he was looking forward to 100 percent Direct Lending.

Assess Staff's Current and Needed Skills Related to Changes in Task Content

After beginning Direct Lending, administrators at two schools found that the FAO staff were not comfortable operating computers or were not capable of handling the complexities of loan origination. The experiences of these two schools (Schools 3 and 8) led the project team to suggest that planning include an early assessment of the current staff's skills in relation to the new tasks and skills needed for program operations—specifically, skill in operating computers.

Other schools (Schools 2 and 13) found their staff lacking adequate accounting experience for performing reconciliation. They needed an additional accounting staff member or staff with a higher level of accounting skills for performing program reconciliation.

Planning Details to Remember

Cohort-1 schools identified two additional areas of planning that had not been anticipated before implementation or identified during the first round of site visits—tracking systems for batch transmissions to the servicer and effects of changes in lender and guarantor relations.

Batch Tracking Systems

Because of hardware and software problems (which will be described in detail in a later section), Cohort-1 schools found that they should have developed a system for tracking batch transmissions. They said that all schools should develop a detailed batch tracking system before beginning operations. The identification number and the contents of each batch—including student identifiers—need to be recorded. Having a tracking system in place is critical when problems such as partial transmissions, record overwrites, or system crashes occur. Without such records, reconstruction of the batch contents is a time-consuming and difficult task.

Guarantor and Lender Relations

Both Cohort-1 and Cohort-2 schools reported that their former working relationships with their lenders and guarantee agencies have deteriorated as a result of Direct Loan participation. More than one school reported that the relationship with the guarantor had become adversarial. While no school said that this change in relationship had affected FFELP borrowers, some administrators expressed concern that FFELP service might decline in the future.

When planning, schools must remember that lenders will no longer provide exit counseling services or printed materials for counseling (as happened with School 14). Although ED is providing the counseling materials, the school will now have to perform exit counseling.

It should be noted that not all lender relations deteriorated with participation in the Direct Loan Program. School 9 surveyed local lenders and found them to be grateful that the school will be a Direct Lending participant. The local lenders had been offering student loans as a service to their customers, but were happy to no longer provide this service. School 7 administrators want to continue both FFELP and Direct Loans so that students have the option of borrowing from a private lender in order to establish a credit record and relationship for post-graduation banking needs.

Deciding on the Division of Labor

One recommendation from Cohort-1 schools is that new Program participants take advantage of prior financial aid experience as the basis for planning the division of Direct Loan tasks. For example, the office that performs the Pell Grant drawdown should also perform the Direct Loan drawdown. Other schools note that the division of tasks must follow appropriate accounting controls—separation of the award function from the disbursement function. Even when drawdown and disbursement are fully automated functions, the schools separate these activities from the awarding function of the FAO.

Year One Direct Loan Program Implementation

This section describes the chronological tasks entailed in processing Direct Loans. The topics discussed are: Loan Origination, Servicer Acknowledgment Reports, Changing or Canceling Loans, Student Status Confirmation Reports (SSCRs), EDExpress and Other Software Issues, Drawdown and Disbursement, Reconciliation, and Communicating with Servicers. For each task area, examples of the Cohort-1 schools' experiences are described. Wherever the schools offered them, suggestions for problem solution are included. Also included are examples of promising practices identified by the Macro site visit teams.

As with any new system, actual operation of the Direct Loan component of EDExpress resulted in identifying problems or deficiencies. What follows are some examples of problems encountered by Cohort-1 schools while using the system to process loans. Some of these problems have been resolved since identified by the site visit teams; others may have been resolved since site visit data collection was completed. While none has created major systems problems for the schools, correcting the data was, at times, a tedious and time-consuming process. There were record overwrites or unexplained loan cancellations resulting in loan processing delays, but many thousands of student loans were successfully and efficiently originated and disbursed in a timely manner to students all over the country. Some problems that had not been resolved, such as corrupted data transmissions, led to further difficulties when the school tried to reconcile its records.

In reporting these problems, the administrators noted that there were probably fewer problems than they would have expected in a new system. Also, as participants in the first year of a new program, they expected numerous system changes. Frontline FAO staff, who handle the day-to-day loan

processing, expressed somewhat more frustration with system software, but still believe that Direct Lending is more efficient and provides better student service than the FFELP.

Loan Origination

Loan origination entails a number of processes, many of which overlap and do not follow a strictly chronological order. This section describes the Cohort-1 schools' experiences with Promissory Notes, Data Entry, Batch Transmission and Tracking, and Originating PLUS Loans.

Promissory Notes

- Promissory notes are legal documents of obligation and, as such, ED must have stringent requirements for acceptable forms. While ED provides schools with preprinted promissory notes, it will allow a school to print its own forms. School 6 chose to print promissory notes on its mainframe computer and found that special care is needed to reproduce the exact wording used on the ED forms or the school risks rejection of the forms. School 3 used the ED forms, but hand printed the loan data. This led to promissory notes being rejected because notes had two different types of ink or notes appeared to have some numbers traced over. To avoid the risk of promissory notes being rejected, it is suggested that schools use ED's forms and computer print all required data.

Suggestion: One school suggests that ED allow for space on PLUS origination records to list parents' references which can then be pre-printed on promissory notes. According to this FAO administrator, this will help avoid transcription errors and problems resulting from some parents' illegible writing.

Data Entry: Pitfalls and Problems Encountered

General Software Problems

- EDExpress requires every screen to be saved before the computer operator can move on to the next screen. While save screens prevent data from being lost, they slow loan processing. School 5 reported that about one-third of data entry time was spent waiting for software processing. This problem was reported in *Case Study Summary Report: Year 1*, but no change had been made to the software.

- EDExpress is cumbersome to use. The system is loan specific, while school records are student specific. Data entry staff must move in and out of the software's sections for processing each type of loan the student will receive. This problem was reported in *Case Study Summary Report: Year 1*, but no change had been made to the software.

- At the time of the site visit to School 8, it was reported that EDExpress cannot run in a Windows environment. Additionally, School 14 had recently upgraded its computer system with the most recent version of Novell. EDExpress is not compatible with this version and the school may have to operate Direct Lending on a dual mainframe-PC system.

Suggestion: As noted above, ED must meet the challenge of keeping EDExpress compatible with state-of-the-art networks and PC technologies. (Macro understands that the 1995-96 version of EDExpress functions in a Windows operating environment.)

Specific Data Entry Problems

The following problems and pitfalls in data entry were discovered by Cohort-1 schools after beginning Direct Loan operations and were, therefore, not identified in *Case Study Summary Report: Year 1*.

- When entering a student's driver's license number on the loan origination record, the state must also be entered (and vice versa). Without **both** data elements, the record will be rejected.

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Suggestion: EDExpress software used by the school should have internal edits which prevent a record from being saved without all required data elements. This would lower the frequency of origination record rejection. (Macro understands that ED has established consistent editing rules between school and servicing center systems to reduce rejects.)

- While many financial aid software systems accept zero as a legitimate number for financial aid dollars, EDExpress will not allow a loan to be zeroed out; it must be canceled. Zero dollars may also present a problem when listed as the dollar amount for a disbursement.

Suggestion: EDExpress should include an option to cancel any loan or disbursement that has been zeroed out. The issue of unequal disbursements is discussed in the section titled "Policy Issues."

- Schools developing their own mainframe or mainframe-to-PC interface noted that the rules ED uses for rounding created some early loan processing problems. The origination fee for a full freshman loan ($2,526) is $89. Schools expected that this fee would be split, with $45 deducted from the Fall semester disbursement and $44 deducted in the Spring. The servicer, however, calculated the split with $44 in the Fall and $45 in the Spring. This led to errors in origination records which, in turn, required additional data entry to correct the records on PC systems and additional programming to correct them on mainframe systems.

Suggestion: Schools should be warned of the need to check the rounding rules used in EDExpress.

- One school reported that if a student does not have a student loan in the Fall semester or if a student's Fall loan is canceled, EDExpress will not permit the school to originate a loan for Spring. It is Macro's understanding that this problem has been corrected.

Batch Transmission and Tracking

- School 1 developed a mainframe interface to EDExpress, which uses EDExpress only for transmission of loan data to and from the servicer. The school reported that the ED

system can handle a maximum of only 200 records per transmission. The school's staff needed 36 hours of continuous transmission to submit one batch of their Fall 1994 loans.

- School 5 is one of two proprietary chain schools participating in Cohort-1. The staff found that ED's system requires a separate transmission for each type of loan and for each of the two schools—a time-consuming process.

- In some cases, records are overwritten in a school's transmission. For example, this happened when School 5 attempted to transmit more than one type of loan in a single transmission. The problem was not discovered until the servicer received signed promissory notes without having any loan origination record for these students. In another school (School 8), the staff were informed of the problem, but the servicer did not tell the school which records required retransmission; the staff had to call the servicer to get this information.

Suggestion: Schools should develop a batch tracking system which identifies what data—including the number of records and a list of student identifiers—is being transmitted to the servicer. This record will enable schools to quickly and efficiently reconstruct the batch without having to individually review all loan records. (Macro understands that ED has added several servicer-generated forms for the 1995-96 year which may assist schools with tracking issues.)

Originating PLUS Loans

- A number of schools reported that a notice is not sent to the school when a PLUS Loan is denied. Parents sometimes lose or throw out the denial notice which the school needs for its records before an Unsubsidized Loan can be originated. Schools recognize the privacy restrictions placed on sharing loan denial information, but are concerned about the delays and confusion this causes. One school is asking parents, who have misplaced the notice, to reapply so that the second denial notice can be brought to the school and the student can then apply for an Unsubsidized Stafford Loan. This solution, however, is costly and time consuming to ED and the school. This problem was identified in study year one and has not been resolved.

Suggestion: One school suggested the servicer send the school a copy of the cover letter stating that the loan was denied without stating the reason. This would protect parents' privacy while permitting the school to begin processing the student's Unsubsidized Loan.

- A school using the alternate originator said that the PLUS shipping manifest has no identification information connecting the parent and student. Because of name changes from marriage and divorce, it is often very difficult to know which student account to credit with the PLUS Loan.

Suggestion: The schools should develop a computerized name matching file. This file would save the time needed to check all origination records to match the PLUS Loan with the correct student.

- Schools report ED's criteria for PLUS approval has been more stringent than those experienced under FFELP.

- As schools progressed through year one of Direct Lending, they reported that PLUS credit checks were taking longer to process.

Servicer's Acknowledgment Reports

- When the ED servicer receives a batch of loan origination records, it acknowledges that transmission with an electronic report. The report contains error messages explaining why specific loan records have been rejected. Some schools report that some of these messages are vague—the staff do not know what they mean or how to correct the problem.

Suggestion: ED should develop a "troubleshooting handbook" listing common errors and problems with possible solutions or corrective actions.

- Acknowledgment reports include the identification number of rejected origination files in a batch, but do not list the accepted origination records. If the school has not maintained a separate listing of all records in the batch, the staff must check each loan origination record to determine which ones were accepted.

Suggestion: While schools should develop batch tracking systems and record content systems, ED should include on acknowledgment reports the identification number of all rejected and accepted loans in a batch.

- Codes used in origination records for part time and full time student status were changed without adequate notice to schools. The change resulted in the schools receiving acknowledgment reports which included many error messages. The schools were later told to ignore the error messages.

Suggestion: ED should retain old codes until all schools have adequate notice and time to correct their records.

- The servicer is not systematically and quickly informing schools of inappropriately sent error messages resulting from servicer system problems.

Suggestion: Notice of system problems should be sent to all schools as soon as discovered.

- A school using the alternate originator said that the shipping manifest does not distinguish first from second disbursement. Because this school has multiple start dates, it is difficult for school administrators to make this determination without checking each student's file.

Suggestion: If possible, the servicer should distinguish between first and second disbursements on the shipping manifest.

- When a school is working with the servicer to resolve a loan origination problem, the school must print and FAX a copy of the screen to the servicer so they are both looking at the same arrangement of data.

Suggestion: To more quickly solve individual problems and improve communication with the school, the servicer should have the capacity to call up the exact image that appears on the school's PC screen.

- When the servicer says that a full transmission was not received, it does not tell the schools which records were received. The schools must call the servicer to find out which records to retransmit. Schools are also fearful of overwriting records.

Suggestion: If a partial transmission is made, the servicer should send the school a list of received records. The school can then use its batch tracking records to identify which records failed to transmit and retransmit them. (Macro understands that ED has limited the number of records per manifest to 50. This should eliminate confusion in tracking batches.)

Changing or Canceling Loans

- Schools report that, for level-1 schools, ED has made loan cancellations simpler than they had originally been in the Direct Loan Program. These schools do not have to return the loan funds to ED; they can apply them to the next drawdown. For level-2 schools, which do have to return the canceled loan funds to ED, loan cancellations are reported easier than they were under FFELP because control of the process is at the institutional level. There is only one organization to deal with—ED—and one set of rules to follow.

- Changing Direct Loan amounts is easier than under FFELP. Adjustments are often made on the second disbursement, obviating the need to cancel the original loan and originate a new loan.

- Not all loan cancellations are being acknowledged/accepted by the servicer. The schools cannot tell if they forgot to transmit the cancellation or if the servicer missed it. This leads to reconciliation problems later.

Suggestion: As part of the batch tracking systems, schools should maintain a list of canceled loans. The servicer should send the school an acknowledgment list of loans canceled in the prior week or month. (Macro understands that ED has added several servicer-generated reports for the 1995-96 year which may address this issue.)

Student Status Confirmation Reports (SSCRs)

- At the time the site visits were completed, the servicer had not yet sent SSCRs to the schools. The schools are concerned because dropouts may enter default or be lost to tracking before the servicer knows that they are no longer enrolled in school. Other schools were concerned about compliance with regulations requiring submission of this information. One school was sending the information on dropouts and graduates to the servicer, but did not receive any acknowledgment of this communication.

Suggestion: The servicer must begin sending SSCRs on a regularly scheduled basis. (Macro understands that ED has recently finalized the SSCR process and these reports are now available for schools.)

EDExpress and Other Software Issues

- Most of the larger schools in this study use their existing mainframe systems for all financial aid functions. These schools chose to develop mainframe-to-mainframe systems or mainframe-to-PC interface for Direct Loan processing. In a number of instances, the software used on the school's mainframe is a commercially available set of modules developed by a few vendors specializing in campus-based software development. These vendors have not been allowed to use the ED system for testing the Direct Loan processing modules they are developing.

Suggestion: Allow software vendors to attend ED training sessions at the schools' invitation and to use ED systems to test their Direct Loan processing modules. (Macro understands that ED has recently announced that it will include vendors in pilot testing EDExpress.)

- Both mainframe and PC schools said they would liked to have had expanded testing capabilities with the servicer. They felt that, especially at the beginning of the year, additional opportunities for testing their operation of EDExpress's various functions would have been very beneficial and would have improved their confidence in implementing the new program. Early and more extensive testing opportunities would have prevented numerous, minor errors which required substantial effort to correct.

Suggestion: ED's servicer should develop extended testing capabilities for schools learning the new program. (Macro understands that ED has recently announced that it will conduct extensive EDExpress pilot testing with Direct Loan schools.)

- When the school makes an error, it cannot retrieve the incorrect file/batch to correct it. Some school staff reported that at times they have had difficulties correcting the error after it has been transmitted. This has lead to reconciliation problems later for at least two of the schools.

Suggestion: ED should create a handbook of common errors and system problems with potential solutions and actions to take. Some method for retrieval of erroneous transmissions should be made available to the schools.

Drawdown and Disbursement

Cohort-1 schools reported the following three techniques used for performing drawdowns:

- Use an estimate of total loan originations minus an estimated percentage of students who fail to meet borrower eligibility requirements.
- Based on origination records, calculate the exact dollars the school anticipates disbursing in the next two to three days, and draw down that amount.
- Disburse the school's funds to the student accounts first, then draw down the exact amount which has been disbursed.

The first method requires years of financial aid data for accurate estimation. The latter two methods were selected by the schools as a means of avoiding any problems associated with having excess cash. The third method was reported to ease reconciliation. (Macro understands that ED has developed drawdown enhancement features on EDExpress to assist schools in calculating a drawdown amount for each method.)

Disbursement figures calculated by EDExpress do not identify either the individuals who are to be receiving disbursements nor the amount to be disbursed to each individual. School 5 administrators state that this information is critical for accurate accounting procedures and they had to develop new reporting capabilities using their mainframe computer in order to be sure that the correct dollar amount was being credited to the correct student.

With the exception of School 5's reporting requirement, no school reported any problem with this Direct Loan function. The Macro team, however, did identify a potential problem found at two of the schools. Mainframe system problems (due to limited development time in year one) prevented immediate reading and responding to servicer's acknowledgment reports. These schools disbursed loans to students whose origination records or promissory notes may have been rejected by the servicer. The rejected origination records were corrected at a later date and resubmitted to the servicer. The possible liability of schools (for funds disbursed without servicer approval) and the reconciliation effects of this are unclear. It appears that ED's disbursement date will not match schools' dates unless ED back dates approval of origination record/note to match schools' disbursements.

Reconciliation

Direct Loan regulations call for a monthly reconciliation of disbursed loans with originated loans. Schools' system development delays, servicer data processing problems and lack of system readiness, and unresolved data errors have caused delays in this process. At the time of the site visits which were conducted between November 1994 and April 1995, 6 of the 10 year one case study schools visited were not current with their monthly reconciliation. Schools 2 and 6 had not yet attempted any reconciliation, although School 6 planned to begin this procedure shortly after the visit. Schools 1, 5, 8, and 9 had attempted reconciliation, but had not resolved all data problems and were not up-to-date on this function. Schools 3, 4, 7, and 10 reported having minor data problems, which were resolved, and were up-to-date on all monthly reconciliations.

Suggestion: ED should offer enhanced and earlier reconcilation training to schools. (Macro understands that ED is offereing specialized reconciliation training beginning in study year two.

ED has been working with schools on reconcilation problems. While reconciliation is a requirement there have been no sanctions placed on schools for not reconciling such as withholding drawdown requests or the administrative cost allowance. The Direct Loan Task Force sent a letter to the schools to be used for ED's program reviewers, explaining that penalties should not be applied for incomplete reconciliation.

Suggestion: ED should consider imposing sanctions on institutions that are not current with monthly reconciliation.

Communicating with Servicers

One key area critical to the success of Direct Lending is the quality of the communications between the schools and the servicer. As in the first study year, the school administrators were consistent in praising the helpful and positive attitude of the support staff of the Direct Loan servicer. All reported that the servicer had worked hard with the school to resolve any problems encountered in a timely fashion.

The Macro teams, however, identified one problematic area. There appeared to be confusion at the schools between the Direct Loan servicer's support function and the Central Processor System (CPS) contractor's technical support function. Many of the interviewed staff did not know which organization they were calling; they merely had a telephone number and name. Others, who were aware that there were two sources of technical support, reported that they did not know which one to call for a specific type of problem. The problem of confusion could be resolved by developing the previously mentioned "troubleshooting handbook," explaining which organization to call for specific problems.

A more serious and less easily resolved difficulty was reported by School 1. Administrators at this school said they were "shuffled back and forth" between the CPS contractor and the Direct Loan servicer, with each "blaming" the other's system for the problem or saying that the problem is in the other one's purview. The school received conflicting technical advice, which prevented completion of reconciliation and receipt of the administrative fee on time.

Schools report that the Direct Loan servicer is preferred over the CPS contractor for responsiveness. At the Direct Loan servicer site, a person always responds to the telephone call; at the CPS contractor site, the caller must leave a recorded message must be left and often wait 24 hours for a response (sometimes without getting a problem solved). This delay in problem resolution results in loan processing delays at the school. School 15's computer support programmer said that the CPS contractor had not been cooperative in providing sufficient specifications for the school's programmers to develop system interfaces.

Promising Practices

During the site visits, schools identified certain practices as working very well for them. Because of their potential application to other schools, they are cited here as "promising practices."

- School 7 draws down the Electronic Student Aid Report (ESAR) as a basis for loan origination files, saving time and effort in data entry and reducing risk of errors. Its networked system of PCs allows each loan counselor to create loan origination records and take responsibility for all changes. Since each student is assigned to the same counselor throughout his/her years at School 7, problems can be routed to the correct counselor and can also be traced by any FAO staff on the system.

- Two schools (Schools 11 and 15) participate in local informal consortiums of schools which meet regularly to discuss Direct Lending issues and to share implementation ideas.

- School 15 is sharing and refining a Cohort-1 school's interface software.

- School 6 developed a mainframe-to-mainframe Direct Loan system to be compatible with its commercially purchased package. It is allowing the vendor to use the system and is working with the vendor to refine it.

- Some commercial mainframe interfaces are now available to Cohort-2 schools and at least one vendor is providing additional system training to School 12's FAO staff.

Schools' Satisfaction with ED Services

This section discusses the services which ED provides to schools, and the schools' satisfaction with these services. For the purposes of this study, ED services include:

- EDExpress software, manuals, and technical support;

- Direct Loan servicing and technical support;

- Direct Loan training; and

- borrower counseling materials.

Earlier sections have addressed the first two categories of services. This section addresses the ED training and borrower counseling materials.

Training

For Cohort-1 schools, the evaluation of ED training was mixed. The more experienced FAO administrators thought that the training was superficial and boring and that much of the information was covered in the printed materials. Those with less FAO experience and those with no EDExpress experience thought that the training went too quickly, with insufficient hands-on practice time.

Staff at Cohort-1 schools said that their training had focused exclusively on system operations. As a result, they had no idea what to do when they encountered problems during actual implementation. They suggested, that in addition to ED developing a "troubleshooting

handbook," training should include sessions where common problems are identified and solutions are taught.

In *Summary Case Study Report: Year 1*, Macro suggested that ED develop separate sessions of training based on experience levels. Feedback from Cohort-1 schools led ED to initiate a special novice section for Direct Loan training. Cohort-2 staff, who attended these beginner sessions, said that the trainers went too quickly for them to feel comfortable with the new skills. They suggested that novice training be extended to two or three days of hands-on experience.

For Cohort-2 schools, their appraisal of ED training depended on their individual expectations. One highly experienced FAO Director said that a lot of time was wasted on information available in the book, while there was insufficient time for hands-on practice and that some topics, such as report generation, were not addressed at all.

As mentioned earlier, business office and fiscal personnel reported ED training lacked instruction for drawdown, disbursement and reconciliation. They suggest special sections be developed for teaching these fiscal office functions.

One programmer attended Year-2 training. He said what ED calls technical training is not what programmers would refer to as technical training. Information such as software specifications, installation and other systems issues was not presented. He suggested ED develop specialized programmer and systems training divided into PC-based and mainframe-based sessions.

Given the diversity of staff needs, the Macro team suggests that ED expand its published list of training sessions and provide a description of the specific content and level of training of each session. Sessions in each of the following areas should be included:

- Direct Loan overview and policy issues;
- novice FAO with extensive hands-on training;
- experienced FAO with hands-on EDExpress training;
- fiscal operations; and
- systems design and programming.

Schools could then schedule attendance at appropriate sessions for all levels of staff. While expanding training to include more problem-solving, hands-on experience types of training, and levels of sessions may initially cost more, theoretically it should reduce costs by lowering the need for technical assistance and the number of errors made by the schools.

In addition to ED's training sessions, many school administrators participated in or viewed ED's teleconferences. They said that these were excellent sources of information presented

in a useful format. Other administrators praised ED's "Q and A" publications for clarity of information and usefulness.

Both Cohort-1 and Cohort-2 schools benefit from additional training sessions offered by commercial mainframe software vendors, state professional associations, and ED-sponsored user groups.

Counseling Materials

During study year one, only two schools had received the counseling materials and neither had reviewed them. Most Cohort-1 schools received entrance interview counseling brochures in June and July 1994. Except for School 5, the FAO administrators judged this delivery to be timely. At the time of study year two site visits, Cohort-2 schools had not yet received their shipments. Cohort-1 school administrators were unanimous in their praise of the ED entrance brochure. Many topics now covered in the brochure were ones that the schools' in-house publications had covered in the past. Thus, schools were eliminating or reducing their own financial aid publications. Most schools had used lender- or guarantor-produced counseling brochures. Some administrators said that the advantage of Direct Loan counseling materials is that the FAO no longer has to deal with many different forms of information which tell the story in different ways and lead to possible confusion.

Exit counseling materials had not been received by the schools, although one administrator said that she had received a draft which she photocopied and distributed to graduating students.

Some administrators are aware of the servicer sending exit materials to the borrowers, but do not know the contents of these materials. They would like to know what is being sent so that the FAO efforts are not redundant.

Suggestion: The servicer should distribute to schools a booklet containing a copy of all student communications and information about what triggers each type of communication with the borrower.

ED Staff

There was frequent praise from all school administrators for the positive, "can-do" attitude of ED staff. Administrators noted that for the first time in their professional experience, they view ED as a partner. They were particularly pleased that ED is developing the Program in partnership with the schools, rather than implementing it and imposing unrealistic regulations on the schools. As in study year one, there were numerous accolades for ED's flexibility and efforts at problem solving.

Expectations of the Direct Loan Program's Success

Administrators were asked about their expectations for the success of the Direct Loan Program. While almost all were enthusiastic about the program, some reserved final judgment about success until loans begin entering repayment. Like the responses in study year one, the administrators said that the quality of loan servicing will be the ultimate measure of the program's quality. All were hopeful that ED would be able to sustain the high quality of support that the Cohort-1 schools have received when the Cohort-2 schools begin participation. A number of administrators, however, expressed concern about the future of Direct Loans and of student loans because of current proposals in Congress.

Level of Effort and Implementation Costs

Level of Effort

Overall Change

School administrators were asked to describe the ease or difficulty they experienced (for Cohort-2 schools, expect to experience) implementing the Direct Loan Program. Twelve of the 15 schools said that implementation was either very easy or relatively easy. Schools 5 and 8 said that they had a rather difficult time and School 2 said that implementation was more difficult than anticipated when applying to participate in Direct Lending.

FAO and business/fiscal office administrators from 13 of the schools said that there was either no change in workload or a slight to moderate increase in workload associated with the transition from FFELP to Direct Loans. Almost all thought that the increase was a temporary one, due to learning new procedures and establishing new routines. They anticipated their workload returning to about the same level after the transition. Fiscal administrators at School 6 said that their workload was slightly higher under Direct Lending, but the level of frustration from dealing with lenders had decreased so dramatically that they were much happier with Direct Loans. FAO administrators at Schools 1, 2, 3, 4, 8, and 10 said that their personal administrative workload had increased dramatically because of the need to develop new procedures, learn all phases of loan processing and reconciliation, train staff, or resolve systems development problems. The administrators added that they anticipate their workload returning to normal after the transition is completed. School 5 reported a substantial increase in workload at the corporate headquarters, where financial aid processing is centralized, but a very easy transition for the school, where financial aid packaging and counseling take place. Business office staff most frequently mentioned the substantial decrease in effort associated with no longer having to manage the receipt and distribution of paper checks.

Specific Tasks

The Macro teams distributed a list of approximately 50 tasks performed under FFELP and Direct Lending. Administrators were asked to rate the extent to which their level of effort had changed (for Cohort-1 schools) or was expected to change (for Cohort-2 schools) with the introduction of new Direct Loan activities or with the elimination of FFELP activities. For a number of tasks, the results were inconsistent. There were, however, clear areas of agreement. For the majority of tasks, administrators said there was no change in workload. Where the workload did change—either increased or decreased—the change was rated as moderate, but all decreases in disbursement tasks were rated as substantial. Table 6 summarizes the perceptions of actual and anticipated changes in level of effort.

Implementation Costs

Three of the five schools visited in study year one experienced no change from their estimated implementation costs. However, two of the five schools (Schools 2 and 3) visited in year one experienced substantial changes in the planned expenditures for Direct Loan implementation.

School 2 had an implementation budget of $80,000, but in the first year of the study reported $39,450 in specific anticipated expenses. Administrators had initially expected to spend approximately $30,000—$40,000 for mainframe system programming (staff costs); at the time of the second site visit, they estimated $77,000—$86,000 had been spent for this task and further programming was needed. In addition, instead of purchasing the planned one or two PCS, the FAO has purchased five PCS for a total cost of $10,000, or an additional $5,000—$7,000.

School 3 had planned to implement Direct Lending using an alternate originator and to cancel its contract with a commercial servicer for Pell Grant processing—assuming this responsibility in-house. At the time of the first site visit, the school had already encountered problems: the one individual who had received ED training was no longer employed at the school and the Owner of the school had been on extended medical leave. Since that visit, the Owner found the FAO Director not capable of handling computerized tasks and the individual designated for computer support functions was not adequately trained in financial aid processing. School 3 is currently spending $12,000 for a commercial servicing company to perform their Pell Grant and Direct Loan operations during year one, but plans to assume these responsibilities in year two.

Table 6

Changes in Level of Effort Related to Direct Loan Participation

Tasks Where Workload Has Increased	Tasks Where Workload Has Decreased
Loan Processing	***Loan Processing***
Distribute and collect promissory notes[1]	Review loan application for completeness and accuracy
Send promissory note to ED[1]	Change loan amounts/dates
Review loan application (origination record) for completeness and accuracy[1]	Cancel loans, return funds
Transmit loan application	Distribute and collect loan applications from borrowers
Change loan amounts/dates	
Disbursement	***Disbursement***
Perform loan disclosure[1]	Receive loan checks
Estimate drawdown[1]	Disburse funds to students
Drawdown loan funds[1]	
Recordkeeping	***Reporting***
Dates of drawdown requests and receipts[1]	Report and return overawards
Reconciliation of transmissions to and from servicer[1]	Respond to loan holder's queries
Records of transmission to and from servicer[1]	
Staff Training	***Recordkeeping***
Keeping informed of changes in federal regulations	Date institution received check/loan proceeds
Train staff in policies, procedures, systems and contact persons	

[1] A new task under Direct Loans with no equivalent task under FFELP.

Implementation costs differed dramatically across schools, with a range from $3,000 at School 10 to over $100,000 at School 1. The most extensive expenditures occurred in the areas of computers and equipment, computer programming, and travel for training. All expenditures, except for additions to staff, were one-time start-up costs.

- Expenditures on computers and computer equipment ranged from $100 for the purchase of a new modem (School 3) to $65,000 for purchase and installation of a new networked system consisting of 10 new 486 PCs tied to the school's existing mainframe (School 7). School 7 had planned this system upgrade as part of its five-year plan, but moved it forward one year for Direct Loan implementation. Only Schools 7 and 14 planned system upgrades without Direct Loan participation.

- Although the reported programmer salaries/costs ranged from $35,000 to $80,000, schools developing a mainframe-to-mainframe or a mainframe-to-PC interface for Direct Lending required the services of a full time systems analyst/programmer for approximately one year.

- Training costs varied from a few hundred dollars to $14,000 depending on the number of staff participating, the number of sessions attended, and the location of the training sessions.

Two schools incurred, or planned to incur, costs associated with a Direct Loan publicity mailing to parents and students. School 2 spent approximately $3,500 for mailing announcements to parents and student borrowers; School 11 plans to spend $35,000 for a mailing to over 22,000 students.

Only four schools reported planned or actual changes in staff. Except at Schools 1 and 2, these staff changes involved less than one FTE. School 2 reduced work-study staff and eliminated one FTE bursar's office clerk, but added one FTE accounting clerk to the FAO (net savings of approximately $18,500). School 1, because of pressure from the state guarantee agency, partially implemented Direct Loans in the first year of participation. In order to simultaneously run the two loan programs, the FAO needed an additional 2 FTE clerks ($50,000 salary and benefits). The school will fully implement Direct Loans in the second program year. Table 7 summarizes the Direct Loan expenditures incurred by the 15 year one site visit schools. With the exception of staff changes, all costs incurred were deemed one-time start-up costs.

Table 7
Summary of Estimated Direct Loan Implementation Expenditures

School	Travel	Computer Equipment	Programming	Staff Change	Misc[1]	Total
1	$ 7,000	$15,500	$30,000[2]	$50,000	—	$102,000
2	$ 4,200	$10,000	$80,000	($18,000)	$ 4,200	$ 80,400
3	$ 1,200	$ 100	—[4]	—	$13,500	$ 14,800
4	$ 2,000	$ 2,400	—	$ 4,000	$ 550	$ 8,950
5	$10,000	$ 3,600	—	—	$ 700	$ 14,300
6	$14,000	—	$35,000	—	$ 2,000	$ 51,000
7	$12,000	$65,000	—	—	—	$ 77,000
8	$ 3,400	—	—	$ 9,000	—	$ 12,400
9	NA[3]	—	—	—	—	NA[3]
10	$ 500	$ 2,500	—	—	—	$ 3,000
11	$ 0	$ 7,000	—	—	$35,000	$ 42,000
12	NA[3]	—	—	—	—	NA[3]
13	$ 1,400	—	$ 1,800	—	—	$ 3,200
14	$ 300	$ 5,000	—	—	—	$ 5,300
15	$ 6,000	$ 5,000	$50,000	—	—	$ 61,000

[1] Includes mailing promissory notes to servicer, publicity costs, and commercial servicer at School 3.

[2] $15,000 spent to date; figure includes estimated future expense to modify commercial vendor software to be installed for year two Direct Loan processing.

[3] School did not report or did not maintain a record of costs.

[4] A dash indicates no expenditures in this category.

Student Interviews

Borrowing Experiences

The Macro team conducted small group interviews with a total of 56 (generally 3—6 per site) student borrowers at most sites; each session lasted about one hour. The first part of the interview focused on student borrowing experiences.

All of the students were aware that they had loans which had to be repaid. Most of the students knew what type of loan they had, how much they had borrowed, and how much their undergraduate borrowing would total. The students seemed reconciled with the need to borrow to attend school, but few were comfortable with being in debt. Quite a few said they "hated" the idea of debt or were very frightened when they thought about it. Many of the students expressed the desire to repay their loans as quickly as possible so as not to have the debt "hanging over their head" and affecting other life decisions, such as marriage or owning a home.

Students said that the availability of loans dictated whether or not they could attend postsecondary schooling, but did not affect their choice of school or their choice of major.

Most student borrowers were optimistic about being able to get jobs in their fields when they graduate. Although some were apparently overly optimistic about entry-level earnings, almost all thought that they would be able to repay their student loans. A few students qualified this with concerns about the national economy or about losing a future job.

Perceptions of Repayment Options

The site visit teams presented 56 students with descriptions of the four payment options. Each option was explained and sample monthly and total payments were presented for each of the following options: Standard Repayment, Extended Repayment, Graduated Repayment, and Income Contingent Repayment.

Four students said they did not know which option they would choose. Of the 56 students, 40 selected the Standard Repayment option. The reasons most often given were that this was: (1) the fastest method to repay and (2) the least costly over the life of the loan. In the first study year, there were a number of students who were surprised about the terms when the standard option was explained. They had thought that they would be repaying only $50 per month, not a minimum of $50 per month for each loan. In the second study year, this confusion was less evident. Despite introducing the repayment topic with the statement that all options allow for prepayment without penalty, many students selected the Standard Repayment option saying, "I can repay ahead of time." Concerning the issue of prepayment penalty, however, many students still seemed to be confused.

One student at a cosmetology school selected the Extended Repayment option, while four others would consider it as an option if they encountered difficulty maintaining the level of payment with their first choice (Standard Repayment).

Five students selected Graduated Repayment. Two of these students planned careers in medicine and expected low initial earnings with rapid improvement over time. The other three were proprietary school students with expectations of entry level earnings only slightly higher than minimum wage.

Six students selected the Income Contingent option. Three of these students were enrolled in a proprietary school, one in a 4-year public university and one in a 2-year community college. Three additional students in a private 4-year college said that they were glad that this option would be available if needed. This option was selected by students who wanted to be sure they could afford their repayments and students who expected low entry-level earnings.

Perceptions of Repayment Methods

Students were also presented with the following three options for method of repayment: monthly check, Electronic Funds Transfer (EFT) from their bank, and employer withholding.

Of the 49 students[6] discussing this, 25 chose the monthly check as their repayment method of choice. The reason most students gave was the desire to retain personal control over their finances. Thirteen students said they would choose EFT to repay their loans because it was easier and more convenient than writing a monthly check. Nine students selected employer withholding. While some students expressed concern about an employer knowing their personal financial information, students selecting this option said that with employers withholding the money, they would be less tempted to spend money on things other than repayment.

Policy Issues

The open-ended nature of the site visit protocols encouraged school administrators to express their own concerns about general financial aid issues and specific student loan issues. Additionally, at any given school, administrators brought up different issues. There was no effort by the site visit teams to direct discussion to specific topics of concern for comparability across schools.

[6] The interview at one school was shortened because the seven students had to attend a class.

Unresolved Study Year One Policy Issues

Macro's *Case Study Summary Report: Year 1*, presented a number of Direct Lending policy issues of concern to school administrators. This section reiterates those issues, also identified by the school administrators in the second study year, that ED has not addressed.

PLUS Loan Origination

Schools that originate PLUS Loans have concerns about the process when a PLUS Loan is denied. The servicer sends a letter telling the parent that they have some options on how to eliminate a credit problem. However, this leaves the loan in an indeterminate status. Until the school knows the final status of the PLUS Loan, they cannot award an Unsubsidized Loan. This situation makes it difficult to try to proceed with a dependent student Unsubsidized Loan. Schools wonder if the servicer will have a deadline past which a PLUS denial can be considered final, so they may proceed with an Unsubsidized Loan.

As noted earlier, schools are also encountering problems with denied PLUS Loans. Parents are not keeping the denial notice which the school needs in order to originate an Unsubsidized Loan. At least one school is asking parents to reapply for a denied PLUS Loan in order to obtain another denial notice. This is costly and time consuming for both the school and ED. The school administrators are aware of the privacy requirements of loan denial information, but would like some form of notification of PLUS Loan denial from the servicer so they may proceed with originating the Unsubsidized Loan.

Crediting of PLUS versus Stafford Loan Refunds

Business office administrators have noted that it is not possible in the current system to distinguish which loan—PLUS or Stafford—was received first by the school. This affects who—the parent or the student—should get any loan refund due. If the Stafford Loan is "first" and is completely used for tuition, room and board, fees, and any balance for refund is from the "later received" PLUS Loan and is due to the parent. Conversely, if the PLUS Loan is received first, the refund would be for the Stafford Loan and paid to the student. While a school may state a policy of treating all PLUS Loans as "first received," this may also create a problem with school-parent relationships.

Unanticipated Consequences of Direct Lending Loan Consolidation

If a school encourages all Direct Loan borrowers with FFELP loans to consolidate in the Direct Loan Program, the students who do consolidate the FFELP loans are those who have remained in school during the Direct Loan implementation. Many of the FFELP loans that will

remain unconsolidated will be for those students who have dropped out of school or graduated before Direct Lending was implemented. The result of this will be two fold.

First, the denominator on which the FFELP cohort default rate will be calculated will be greatly reduced. Thus, even a small number of defaults will yield a higher FFELP cohort rate. Second, many of the remaining holders of FFELP paper (i.e., dropouts who did not consolidate) are those at the highest risk of defaulting. This may also greatly increase the default rate.

One administrator said that schools which have encouraged consolidation may risk an FFELP cohort default rate so high that they may be excluded from Title IV participation. (Macro understands that the Federal Direct Loan Consolidation Program is currently being reviewed.)

Continuing Problems with Proration for Graduating Seniors

In the second study year, three schools brought up the issue of proration problems with loans to graduating seniors. Twenty-four credits in an academic year is considered to be full time for the purpose of allocating loans. However, if a student is in the last term and needs only six credits to graduate, s/he would be entitled to only 6/24 (¼) of the maximum $5,500 loan, or $1,375. This would not be enough to stay in school. The FAO Director cannot understand why a junior can obtain a maximum loan for one semester, while a graduating senior cannot. (Macro understands that the 1995-96 version of EDExpress contains enhancements which will address the issue of Program completion dates.)

Policy Issues Identified in Study Year Two

In this section, we report three additional areas of policy concern expressed by the respondents in the second study year: (a) limiting student borrowing, (b) disbursement rules, and (c) entrace counseling rules. These issues are not limited to Direct Loans—they apply to all Title IV loans.

Limiting Student Borrowing

A number of financial aid administrators, particularly at the lower cost public 2- and 4-year and cosmetology schools, expressed concern about the high levels of student borrowing. Some said that the congressionally established loan limits are too high. One proprietary school administrator said that there are other schools encouraging maximum borrowing.

Some schools in this study have established policies and practices to discourage or limit student borrowing including:

- Students must make a separate trip to the FAO or fill out a school loan application to apply for a loan.
- Students must complete a personal budget to justify approval of an Unsubsidized Loan.
- The school assists students in locating part time work to limit borrowing.
- The school sends a separate cover letter with notice of Unsubsidized Loan eligibility discouraging this form of borrowing.
- The school attempts to identify alternative sources of funds, such as Job Training Partnership Act (JTPA) programs.
- The school has only a full time program, thus limiting loans to a single academic year of eligibility.

With the exception of the first strategy listed (at School 4), the other strategies appear to have kept borrowing at relatively constant levels at Schools 3, 5, and 13. Other schools' (Schools 6, 10, 15) limiting policies and practices need to be followed further to test their effectiveness.

In comparison, there are strategies which may encourage maximum borrowing, such as including the promissory notes with the financial aid award letter which lists maximum amounts a student is eligible to borrow. School 2, which uses this strategy, had an increase of over 20 percent in overall loan volume. In addition, the Director of the Graduate School's FAO said that graduate students, who had not borrowed in the past, were now accepting student loans because of the ease of application.

Ongoing examination of policies and Direct Loan administrative strategies will be necessary before clear trends can be determined.

As many schools in the first year of Direct Lending have discovered, computer software can directly affect (or reflect) policy. This issue was raised in discussions at School 13 in regard to the use of EDExpress for packaging student aid. The FAO at this school discourages borrowing and has successfully limited the use of Unsubsidized Loans for living expenses. This policy was developed because the school experienced many problems with students dropping out after receiving SLS loan disbursements. The school wants to avoid a repeat of these problems with Direct Lending and wishes to continue the policy of limiting borrowing, particularly borrowing Unsubsidized Stafford Loans for living expenses. The administrator wanted to know if EDExpress automatically prints the maximum amounts of loans for which a student is eligible on the financial aid award notice and, if so, would she be able to suppress this printing in order to continue limiting student borrowing. This issue remains unresolved.

While the Macro team did not have an answer to the technical question, it is an important policy issue for ED to address.

Schools Desire More Flexibility in Disbursement Rules

Unequal Disbursements

Not all students have equal monetary needs for each semester of an academic year. For example, some students have a period of off-campus study or an internship during one semester. School administrators would like to be able to divide a student loan into the needed unequal disbursements when such exceptional cases occur. This is also an issue for schools on the quarter system. FAOs have difficulties making equal disbursements for students enrolled for two or three quarters.

Single-Semester Loans

Financial aid administrators would like to see the rules for multiple disbursements relaxed to allow a single disbursement for students who take out a single-semester loan.

Delayed Disbursement

The Director of the FAO at School 1 suggested that the rule for the 30-day delayed disbursement for first-time borrowers be tied to the school's default rate—if a school has a low default rate, they would not be required to delay the disbursement. He stated that this rule, as many others, was initially designed for schools with high default rates; schools with low default rates should not be penalized with the additional administrative burden. Instead, he suggests that the default rate trigger points for requiring schools to conform to such rules.

Entrance Counseling Rules

More than one administrator suggested that ED revise the requirements for entrance counseling so that schools may present the material to student borrowers at any point before the second loan disbursement. The administrators say that by presenting the complex financial information before the first disbursement, when students are beginning school, the FAO counselors are overwhelming the new students with more information than the students can absorb. By waiting until later in the first semester, students have a chance to get settled and are more able to retain this information.

Statements from students interviewed at a number of schools support this idea. Those who had entrance interview information presented during freshman orientation said that there was too much new information to absorb; because other students were talking, they did not clearly

hear or understand the presentation. They, too, suggested that financial aid counseling take place later in the first semester.

Summary

In summary, the first year of Cohort-1 case study schools' implementation of the Direct Loan Program was characterized by: (1) continued overall satisfaction with the program and with ED services and responsiveness; (2) continued enthusiasm for program benefits; and (3) a generally cooperative atmosphere between ED, the servicer and schools and, on campuses, among administrative departments and offices.

Few differences were found in the planning and implementation strategies of Cohort-1 and Cohort-2 schools except that the latter were often able to benefit from the experiences of the former and from revisions to software and training suggested by Cohort-1 schools' experience.

Concerning workload changes and expenditures involved in implementing the program, most schools did not experience any major surprises; that is, in most cases, estimates of staff and resources required to implement the program were very close to year one actual expenditures. Most schools have not had a net increase in staff to implement the program. The most problematic area was the use of in-house computer systems personnel for programming necessary systems interfaces.

There were some new issues concerning the software and training and especially concerning transmissions of loan origination records to the servicer. The bulk of case study schools' suggestions for improvement were focused in these areas.